

McCrory-McLellan

STORES CORPORATION

— ANNUAL **1958** REPORT —

Directors

R. F. COPPEDGE, *Chairman*

JOSEPH M. D'ASSERN IVAN ALLAN EZRINE J. L. FREED HERSCHEL HARRIS
N. BAXTER JACKSON E. G. MAY J. M. NICELY M. E. OLEN F. W. PAUL
LEONARD SPANGENBERG CARL V. BRANDEBURY GEORGE WEISS

Executive Committee

R. F. COPPEDGE, *Chairman*

LEONARD SPANGENBERG, *Vice-Chairman*

IVAN ALLAN EZRINE E. G. MAY M. E. OLEN F. W. PAUL

Officers

R. F. COPPEDGE (1931), *Chairman of the Board of Directors*

EARLE G. MAY (1928), *Vice Chairman of the Board of Directors*

F. W. PAUL (1925) *President*
J. B. GEORGE (1924) *Vice President*
S. A. GREISEN (1923) *Vice President*
M. O. HILL (1920) *Vice President*
J. F. KING (1927) *Vice President*
H. Y. MCLEISH (1925) *Vice President*
L. C. SHOCKLEY (1928) *Vice President*
R. A. VROOM (1922) *Vice President*
T. C. LAWRENCE (1945) *Financial Vice President and Secretary-Treasurer*

Dates indicate year of employment of Officers.

General Counsel *Wolf, Block, Schorr & Solis-Cohen*
Auditors *S. D. Leidesdorf & Co., New York, N. Y.*
Transfer Agent *Guaranty Trust Company of New York*
Registrar
 Common Stock *Bankers Trust Company, New York, N. Y.*
 Preferred Stock *Chemical Corn Exchange Bank, New York, N. Y.*
General Office *1107 Broadway, New York, N. Y.*

March 12, 1959

To The Stockholders:

The year nineteen fifty-eight was an eventful one for McCrory. In December your Board of Directors recommended to the stockholders a proposal to merge the McLellan Stores Company with and into the McCrory Stores Corporation and to change the name of the Corporation to McCrory-McLellan Stores Corporation. The proposal was approved by stockholders on January 8, 1959 and became effective January 30, 1959. The merger brings to McCrory 235 stores in 29 states with annual sales of approximately sixty-one million dollars and extends the McCrory operation to 14 new states. The two organizations complement each other without being competitive and the wider range of stores will give added opportunity to the employees of both companies and should also result in greater benefits to the stockholders.

During the latter part of February the H. L. Green Company Inc., acquired the stock interest of Variety Stores Corporation in United Stores Corporation. United Stores Corporation own approximately 39% of the outstanding Common Stock of McCrory-McLellan Stores Corporation. On March 2, 1959, Joseph M. d'Assern, Ivan Allan Ezrine, J. L. Freed, Herschel Harris, James M. Nicely and M. E. Olen, all directors of Green, were elected directors of McCrory-McLellan Stores Corporation. These men replaced the following directors who represented Variety Stores Corporation, an affiliate of Bankers Securities Corporation of Philadelphia; Gustave G. Amsterdam, Albert M. Greenfield, Gordon K. Greenfield, George H. Johnson and Edward F. McGinley. William L. Less also resigned as a director.

As of January 30, 1959, McCrory issued to the stockholders of McLellan Stores Company 1,085,237 shares of McCrory-McLellan Stores Corporation Common Stock in exchange for all the outstanding stock of McLellan. On pages 14 and 15 are submitted the Balance Sheet of McLellan Stores Company as at January 30, 1959 and the results of operations of the McLellan Stores Company for the period from February 1, 1958 to January 30, 1959.

The combined sales of the merged companies for their preceding calendar and fiscal years amounted to \$170,211,881. Net income for the companies for 1958 amounted to \$3,775,036 which after dividends on the preferred stock was equal to \$1.06 per share on the 3,367,304 shares of McCrory-McLellan Stores Corporation common stock outstanding January 30, 1959. These earnings reflect the operations of the merged companies as if they were a single business enterprise and makes no provision for economies or expenses that may result from the merger.

Sales of McCrory Stores Corporation amounted to \$109,760,142 in 1958 and compared with sales of \$111,751,351 in 1957. Business activity increased in the last quarter of 1958 and has continued to show signs of improvement in the first quarter of 1959.

REPORT TO STOCKHOLDERS

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Net income for McCrory Stores Corporation for the year was \$2,858,944, which after preferred dividends, was equal to \$1.16 per common share. This compares with net income in 1957 of \$3,304,655, which, after preferred dividends was equal to \$1.36 per common share.

During 1958 preferred stockholders were paid dividends of \$208,890. Common stockholders received \$1,825,654, equivalent to \$.80 per share.

The 1959 store program is showing the results of the concentrated drive during 1958 for new store locations. These new stores listed below are not all located in shopping centers. The company has found that the development of the planned community, whether it be in shopping centers or in downtown business communities, offers equal opportunity for expansion.

Jacksonville, Fla	Knoxville, Tenn.	Chambersburg, Pa.
Mt. Dora, Fla.	Midland, Texas	Mountainville (Allentown) Pa.
Orlando, Fla.	Yazoo City, Miss.	North York, Pa.
Titusville, Fla.	Farmington, N. Mex.	Moundsville, W. Va.
	Hobbs, N. Mex.	

The Company is constantly renovating its stores and designing new equipment for the presentation of regular variety store merchandise and for the introduction of new lines of higher priced merchandise in ready-to-wear and home-furnishing. The cost of this renovation program and the new stores listed above will amount to approximately \$5,000,000 in 1959 for the merged companies. This cost will exceed the annual provision for amortization and depreciation by approximately \$2,000,000.

The 1958 construction program for McCrory amounted to \$1,724,879 net and included the following:

NEW STORES:	Fairless Hills (Levittown), Pa.
	East Point, Georgia and
	Tyrone Gardens (St. Petersburg), Fla.

ENLARGED OR CONVERTED TO SELF-SERVICE:

Pittsburgh, Pa.	Lebanon, Pa.	
Leesburg, Fla.	Memphis, Tenn.	Savannah, Ga.

McLellan Stores Company during 1958 opened new stores at Flagstaff, Arizona and Albuquerque, New Mexico, the latter store being in a shopping center. Two stores were converted to self-service and additional space for sales was acquired in six other locations. The entire cost of this program amounted to \$1,016,971.

The following statement shows the Working Capital of McCrory at December 31, 1958, McLellan at January 30, 1959 and the working capital of the merged companies. The Statement of Source and Disposition of Funds of McCrory for the calendar year 1958 and for McLellan for the fiscal period ending January 30, 1959 and the combined accounts is submitted for information purposes only.

WORKING CAPITAL

	McCrory- McLellan Combined	McCrory Stores Corp. 12/31/58	McLellan Stores Company 1/30/59
CURRENT ASSETS			
Cash	\$ 8,209,167	\$ 6,361,618	\$ 1,847,549
U.S. Government Securities	59,559	59,559	
Merchandise Inventories	29,775,961	17,881,897	11,894,064
Accounts Receivable	204,864	79,907	124,957
	<u>\$38,249,551</u>	<u>\$24,382,981</u>	<u>\$13,866,570</u>
Less: Current Liabilities (Net)	15,366,194	9,342,036	6,024,158
WORKING CAPITAL	<u>\$22,883,357</u>	<u>\$15,040,945</u>	<u>\$ 7,842,412</u>

STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

	McCrory- McLellan Combined	McCrory- Stores Corp. 1/1/58 to 12/31/58	McLellan Stores Company 2/1/58 to 1/30/59
ADDITIONS TO WORKING CAPITAL:			
Net Income	\$ 3,775,036	\$ 2,858,944	\$ 916,092
Depreciation and Amortization	3,129,814	1,914,719	1,215,095
	<u>\$ 6,904,850</u>	<u>\$ 4,773,663</u>	<u>\$ 2,131,187</u>
DEDUCTIONS FROM WORKING CAPITAL:			
Cash Dividends on Preferred and Common Stock	\$ 2,902,702	\$ 2,034,544	\$ 868,158
Capital Assets (expenditures for new and remodeled stores, etc. — net)	2,741,850	1,724,879	1,016,971
Increase in Deferred Charges	187,426	20,974	166,452
Long Term Debt (current portion)	1,250,000	750,000	500,000
	<u>\$ 7,081,978</u>	<u>\$ 4,530,397</u>	<u>\$ 2,551,581</u>
NET (DECREASE) OR INCREASE IN WORKING CAPITAL..	<u>\$ (177,128)</u>	<u>\$ 243,266</u>	<u>\$ (420,394)</u>

We wish to express our appreciation to our stockholders for their keen interest in the affairs of the Company which was so clearly demonstrated by the prompt return of proxies for the Special Meeting on January 8, 1959. In excess of 87% of the outstanding common stock of the Company was represented at the meeting to vote on the merger with McLellan Stores Company.

—BY ORDER OF THE BOARD OF DIRECTORS

R. F. Coppedge

R. F. COPPEDGE, Chairman

The Story in Brief

	McCrory- McLellan Combined	McCrory Stores Corp. 1958	McLellan Stores Company 1958
Sales	\$170,211,881	\$109,760,142	\$60,451,739
Number of Stores	451	216	235
Average Sales per Store	377,409	508,149	257,241
Employees Compensation and Pension Costs (Including Payroll Taxes) .	34,523,239	22,105,988	12,417,251
Net Earnings	3,775,036	2,858,944	916,092
Earned per Share	1.06	1.16	1.06
Dividends per Share80	.80	1.00
Taxes per Share (Federal, State and Local)	1.49	1.58	1.61
Net Additions to Fixtures and Improvements	2,741,850	1,724,879	1,016,971
Working Capital	22,883,357	15,040,945	7,842,412
Current Ratio	2.49	2.61	2.30
Net Worth per Share	16.80	16.29	22.37
Number of Stockholders — March 13, 1959	13,869		

McCrory Stores Corporation

ASSETS

	1958	1957
CURRENT ASSETS:		
Cash on hand, in banks and in transit	\$ 6,361,618	\$ 4,855,265
U.S. Government securities — at cost, plus accrued interest thereon, less amount deducted from reserve for Federal income taxes — contra	59,559	
Merchandise inventories—Note A	17,881,897	18,564,833
Miscellaneous accounts receivable, less reserve	79,907	213,382
Total Current Assets	<u>\$24,382,981</u>	<u>\$23,633,480</u>
FIXED ASSETS:		
Real estate, at adjusted value December 31, 1936, and subsequent additions at cost	\$ 6,577,549	\$ 6,565,977
Furniture, fixtures and equipment, at cost	18,482,002	17,648,504
Improvements to leased property, at adjusted value January 1, 1936, and subsequent additions at cost	19,765,554	19,491,258
	44,825,105	43,705,739
Less: Reserves	16,746,641	15,437,435
Total Fixed Assets	<u>\$28,078,464</u>	<u>\$28,268,304</u>
DEFERRED CHARGES:		
Prepaid rents, insurance, taxes, store supplies, etc.	\$ 1,028,587	\$ 1,007,613
	<u>\$53,490,032</u>	<u>\$52,909,397</u>

NOTES TO FINANCIAL STATEMENTS

The financial statements as at and for the year ended December 31, 1957, are shown for comparative purposes only. Reference should be made to the Annual Report for the year ended December 31, 1957, for notes pertaining to these financial statements.

At a special meeting held on January 8, 1959, the stockholders adopted an Agreement of Merger and authorized the filing of a Certificate of Consolidation providing for the merger of McLellan Stores Company into McCrory Stores Corporation, the Surviving Corporation, with its name changed to McCrory-McLellan Stores Corporation. Such merger became effective on January 30, 1959. On the effective date the Common Stock of McLellan Stores Company was converted into Common Stock of McCrory Stores Corporation at the rate of 1.25 shares of McCrory for each share of McLellan outstanding on the effective date.

NOTE A—

Merchandise at stores:

	1958	1957
Inventories at the lower of cost or market based upon the retail method of inventory valuation	\$14,098,366	\$14,830,523
Inventories at cost—restaurants	89,747	90,515
Merchandise at warehouse—at cost	873,346	905,934
Merchandise in transit—at cost	2,820,438	2,737,861
	<u>\$17,881,897</u>	<u>\$18,564,833</u>

NOTE B—

The restrictive covenants of a Term Loan and Credit Agreement dated July 29, 1955, provide, among other matters, that the Company maintain minimum working capital, exclusive of the notes, equal to three times the unpaid principal amount of the notes outstanding.

COMPARATIVE BALANCE SHEET

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COMPARATIVE BALANCE SHEET as at December 31, 1958 and 1957

LIABILITIES

	1958	1957
CURRENT LIABILITIES:		
Accounts payable	\$ 4,568,983	\$ 3,485,614
Accrued expenses, taxes, rents, salaries, etc.	4,023,053	4,065,447
3½% Term Notes—current installment—Note B	750,000	750,000
Reserve for Federal income taxes	2,951,106	3,534,740
Less: U. S. Government securities — at cost	(2,951,106)	(3,000,000)
Total Current Liabilities	<u>\$ 9,342,036</u>	<u>\$ 8,835,801</u>
3½% TERM NOTES due in annual installments to 1961—less current portion included above—Note B	<u>\$ 1,000,000</u>	<u>\$ 1,750,000</u>
CAPITAL STOCK AND SURPLUS—Note C:		
Preferred Stock—par value \$100 per share:		
Authorized	80,000 shares	
Unissued	20,000 shares	
3½% Series—Cumulative Convertible		
Outstanding	59,683 shares	
	\$ 5,968,300	\$ 5,968,300
Common Stock—par value \$.50 per share:		
Authorized	2,800,000 shares	
Issued and outstanding	2,282,067 shares	
	1,141,034	1,141,034
Capital Surplus	7,743,949	7,743,949
Earned Surplus	28,294,713	27,470,313
	<u>\$43,147,996</u>	<u>\$42,323,596</u>
	<u>\$53,490,032</u>	<u>\$52,909,397</u>

Red figures are designated by ().

NOTE C—

The 3½% Cumulative Convertible Preferred Stock is redeemable at the option of the Company, in whole or in part, at \$104 per share, plus accrued dividends to date of redemption. In the event of voluntary liquidation, the holders are entitled to receive an amount equal to the then redemption price and in the event of involuntary liquidation are entitled to \$100 per share and accrued dividends. There are 298,415 shares of Common Stock reserved for conversion of the Preferred Stock. Pursuant to certain restrictions in connection with the authorization of the Preferred Stock, Capital and Earned Surplus as at December 31, 1958, in the approximate amount of \$16,300,000 is not available for dividends on the Common Stock. Reference is made to Note B for minimum working capital requirements.

GENERAL—

The Company amended its non-contributory retirement plan on January 8, 1959, to provide for normal retirement at age 65 instead of age 60 and for payment of a maximum amount of \$12,600 per annum to any participant instead of \$9,000 per annum. Operations for the current year have been charged with \$495,000 to cover the costs under the amended plan. Had the plan not been amended, operations for the current year would have been charged with approximately \$620,000.

At December 31, 1958, the minimum annual rentals upon property leased to the Company under 258 leases expiring after December 31, 1961, amount to approximately \$4,000,000, plus real estate taxes, insurance, etc.

The accompanying financial statements are subject to final determination of Federal, state and local taxes.

Statement of Income and Earned Surplus

For the Years Ended December 31, 1958 and 1957

	1958	1957
SALES (merchandise, restaurant and concession)	\$109,760,142	\$111,751,351
COST OF GOODS SOLD AND OPERATING EXPENSES (including occupancy and general and administrative expenses)	101,888,330	102,855,454
	<u>\$ 7,871,812</u>	<u>\$ 8,895,897</u>
Other deductions:		
Interest expense	\$ 136,934	\$ 156,352
Miscellaneous deductions, less other income	(103,785)	(19,983)
	<u>\$ 33,149</u>	<u>\$ 136,369</u>
	<u>\$ 7,838,663</u>	<u>\$ 8,759,528</u>
Depreciation and amortization	1,914,719	1,829,873
Net income before Federal income taxes	5,923,944	6,929,655
Provision for Federal income taxes	3,065,000	3,625,000
NET INCOME	2,858,944	3,304,655
EARNED SURPLUS as at December 31, 1957 and 1956	27,470,313	26,884,665
	<u>30,329,257</u>	<u>30,189,320</u>
Dividends paid on:		
Common Stock—\$.80 per share	1,825,654	
\$1.10 per share		2,509,749
Preferred Stock	208,890	209,258
	<u>2,034,544</u>	<u>2,719,007</u>
EARNED SURPLUS as at December 31, 1958 and 1957		
—Note C	<u>\$ 28,294,713</u>	<u>\$ 27,470,313</u>

Red figures are designated by ().

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction herewith.

TO THE BOARD OF DIRECTORS
McCRORY STORES CORPORATION
NEW YORK, N. Y.

We have examined the balance sheet of McCrory Stores Corporation as at December 31, 1958, and the related statement of income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of income and earned surplus, together with the notes to financial statements, present fairly the financial position of McCrory Stores Corporation at December 31, 1958, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & CO.

Certified Public Accountants

New York, N. Y.
February 4, 1959

Ten Year Summary

(In thousands of dollars)

	1958	1957	1956
SALES	\$109,760	\$111,751	\$113,116
Cost of Sales, including occupancy expenses	72,774	73,716	76,004
Selling, general and administrative expenses	29,114	29,139	28,111
Depreciation and amortization	1,915	1,830	1,721
Other Deductions, less other income	33	136	148
NET INCOME Before Federal Taxes	5,924	6,930	7,132
Federal Taxes on Income	3,065	3,625	3,720
NET INCOME	\$ 2,859	\$ 3,305	\$ 3,412
Cash Dividends on Preferred Stock	209	209	210
Cash Dividends on Common Stock	1,826	2,510	2,281
*Net Income per share of Common Stock	1.16	1.36	1.40
*Cash Dividends per share of Common Stock80	1.10	1.00
Number of Stores	216	215	213

Financial Position

	1958	1957	1956
WORKING CAPITAL			
Current Assets			
Cash and U.S. Government Securities	\$ 6,421	\$ 4,855	\$ 6,215
Merchandise Inventories	17,882	18,565	17,900
Miscellaneous Accounts Receivable	80	213	69
Total Current Assets	24,383	23,633	24,184
Current Liabilities	9,342	8,835	8,706
WORKING CAPITAL	15,041	14,798	15,478
OTHER ASSETS			
Account Receivable — Noncurrent	—	—	—
Deferred Charges, etc.	1,029	1,008	905
Fixed Assets, Less Reserves for Depreciation and Amortization	28,078	28,268	27,855
	44,148	44,074	44,238
OTHER LIABILITIES			
Long Term Debt	1,000	1,750	2,500
NET ASSETS	\$ 43,148	\$ 42,324	\$ 41,738
Represented by			
Preferred Stock	\$ 5,968	\$ 5,968	\$ 5,990
Common Stock and Surplus	37,180	36,356	35,748
	\$ 43,148	\$ 42,324	\$ 41,738
*NET WORTH PER SHARE OF COMMON STOCK	\$ 16.29	\$ 15.93	\$ 15.67

*Number of shares of Common Stock has been adjusted to reflect 2 for 1 split during April 1951.

TEN YEAR SUMMARY

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Statement of Income

1955	1954	1953	1952	1951	1950	1949
\$109,705	\$103,856	\$104,787	\$106,987	\$104,222	\$98,665	\$95,767
73,916	70,580	71,192	73,286	71,011	66,140	65,137
27,004	25,475	24,987	25,771	24,378	22,930	22,249
1,628	1,560	1,477	1,405	1,252	1,130	951
282	35	(71)	22	(248)	(340)	(156)
6,875	6,206	7,202	6,503	7,829	8,805	7,586
3,575	3,140	3,575	3,175	3,740	3,540	2,755
\$ 3,300	\$ 3,066	\$ 3,627	\$ 3,328	\$ 4,089	\$ 5,265	\$ 4,831
210	210	210	210	210	210	210
2,281	2,395	2,509	2,851	2,851	3,135	2,850
1.35	1.25	1.50	1.37	1.70	2.21½	2.02½
1.00	1.05	1.10	1.25	1.25	1.37½	1.25
214	210	211	211	206	205	201

December 31, 1949–1958

1955	1954	1953	1952	1951	1950	1949
\$ 5,369	\$ 5,396	\$ 6,114	\$ 7,501	\$ 8,778	\$ 8,642	\$10,876
18,176	15,233	15,266	13,805	13,372	15,678	11,407
38	156	100	36	744	96	48
23,583	20,785	21,480	21,342	22,894	24,416	22,331
7,863	7,342	8,545	7,517	8,628	8,464	6,754
15,720	13,443	12,935	13,825	14,266	15,952	15,577
—	—	300	—	—	—	—
876	870	923	924	1,097	968	909
25,600	25,073	24,767	23,267	22,387	19,800	18,316
42,196	39,386	38,925	38,016	37,750	36,720	34,802
2,000	—	—	—	—	—	—
\$ 40,196	\$ 39,386	\$ 38,925	\$ 38,016	\$ 37,750	\$36,720	\$34,802
\$ 5,990	\$ 5,990	\$ 5,990	\$ 5,990	\$ 5,990	\$ 6,000	\$ 6,000
34,206	33,396	32,935	32,026	31,760	30,720	28,802
\$ 40,196	\$ 39,386	\$ 38,925	\$ 38,016	\$ 37,750	\$36,720	\$34,802
\$ 15.00	\$ 14.64	\$ 14.44	\$ 14.04	\$ 13.92	\$ 13.47	\$ 12.63

McLellan Stores Company

ASSETS

CURRENT ASSETS:

	1959	1958
Cash on hand, in banks and in transit	\$ 1,847,549	\$ 2,104,900
Merchandise inventories—Note A	11,894,064	12,279,190
Miscellaneous accounts receivable, less reserve	124,957	271,091
TOTAL CURRENT ASSETS	<u>\$13,866,570</u>	<u>\$14,655,181</u>

FIXED ASSETS:

Real estate—as appraised at January 1, 1935, plus subsequent additions at cost	\$ 117,624	\$ 117,624
Furniture and fixtures—at cost	9,538,956	8,997,490
Leasehold improvements—at cost	10,452,122	10,233,371
Leaseholds—at nominal value	1	1
	<u>20,108,703</u>	<u>19,348,486</u>
Less: Reserves	8,351,712	7,425,569
	<u>11,756,991</u>	<u>11,922,917</u>
Construction in progress	62,152	94,350
TOTAL FIXED ASSETS	<u>\$11,819,143</u>	<u>\$12,017,267</u>
DEFERRED CHARGES	<u>\$ 641,877</u>	<u>\$ 475,425</u>
	<u>\$26,327,590</u>	<u>\$27,147,873</u>

NOTES TO FINANCIAL STATEMENTS

The financial statements as at and for the year ended January 31, 1958, are shown for comparative purposes only. Reference is made to the Annual Report for the year ended January 31, 1958, for notes pertaining to these financial statements.

At a special meeting held on January 8, 1959, the stockholders adopted an Agreement of Merger and authorized the filing of a Certificate of Consolidation providing for the merger of McLellan Stores Company into McCrory Stores Corporation, the Surviving Corporation, with its name changed to McCrory-McLellan Stores Corporation. Such merger became effective on January 30, 1959. On the effective date the Common Stock of McLellan Stores Company was converted into the Common Stock of McCrory Stores Corporation at the rate of 1.25 shares of McCrory for each share of McLellan outstanding on the effective date.

NOTE A—Merchandise at stores—at the lower of cost or market, based upon the retail method of inventory valuation

	\$ 9,598,330
Merchandise at warehouses—at cost	789,181
Merchandise in transit from warehouses to stores, and stores to stores—at cost ...	334,241
Merchandise at warehouses and stores, unopened January 1959 deliveries—at cost ..	206,066
Merchandise in transit from vendors—at cost.....	966,246
	<u>\$11,894,064</u>

COMPARATIVE BALANCE SHEET

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COMPARATIVE BALANCE SHEET AS AT JANUARY 30, 1959 (prior to merger) AND JANUARY 31, 1958

LIABILITIES

CURRENT LIABILITIES:

	1959	1958
Accounts payable	\$ 3,108,059	\$ 2,940,515
Accrued expenses, taxes, rents, salaries, etc.	1,538,748	1,749,634
3½% Term Notes—current installment—Note B	500,000	500,000
Reserve for Federal income taxes—Note C	877,351	1,265,226
TOTAL CURRENT LIABILITIES	6,024,158	6,455,375
3½% TERM NOTES due in annual installments to 1961— less current portion included above—Note B	750,000	1,250,000
RESERVE FOR DEFERRED FEDERAL INCOME TAXES—Note C ...	128,000	65,000
TOTAL LIABILITIES	\$ 6,902,158	\$ 7,770,375

CAPITAL STOCK AND SURPLUS:

Capital Stock:

Shares

Preferred Stock—cumulative convertible—par
value \$100 per share — issuable in series:

Authorized and unissued 75,000

Common Stock—par value \$1 per share:

Authorized 1,000,000

Issued and outstanding 868,189 \$ 868,189 \$ 868,189

Surplus:

Capital Surplus 4,005,554 4,005,554

Earned Surplus 14,551,689 14,503,755

\$19,425,432 \$19,377,498

\$26,327,590 \$27,147,873

NOTE B—The restrictive covenants of a Term Loan and Credit Agreement dated July 29, 1955, provide, among other matters, that the Company maintain minimum working capital, exclusive of the notes, equal to three times the unpaid principal amount of the notes outstanding.

NOTE C—The Company has adopted, for Federal income tax purposes, an accelerated method of computing depreciation on certain fixed assets acquired after January 31, 1956, as allowed under the Internal Revenue Code of 1954. However, the straight line basis of depreciation is being continued for accounting purposes and the provision for Federal income taxes has been computed accordingly. The amount of \$128,000, representing the approximate reduction in Federal income taxes attributable to the additional allowable deductions for depreciation through January 30, 1959, is shown as a reserve for deferred Federal income taxes in the accompanying balance sheet.

GENERAL—The accompanying financial statements are subject to final determination of Federal, state and local taxes.

At January 30, 1959, the minimum annual rentals upon property leased to the Company under 257 leases expiring after January 31, 1962, amount to approximately \$2,400,000 plus, in certain instances, real estate taxes, insurance, etc.

Statement of Income and Earned Surplus

For the Period from February 1, 1958 to January 30, 1959 (prior to merger)
and For the Year Ended January 31, 1958

	1959	1958
Sales	\$60,451,739	\$60,694,065
Cost of goods sold and selling and administrative expenses, before depreciation and amortization ..	57,151,060	56,623,616
	<u>\$ 3,300,679</u>	<u>\$ 4,070,449</u>
Other deductions:		
Interest expense	\$ 123,886	\$ 154,994
Miscellaneous deductions, less other income	(9,394)	(55,591)
	<u>\$ 114,492</u>	<u>\$ 99,403</u>
Net income before depreciation, amortization and Federal income taxes	\$ 3,186,187	\$ 3,971,046
Depreciation	\$ 647,498	\$ 605,361
Amortization	567,597	569,817
	<u>\$ 1,215,095</u>	<u>\$ 1,175,178</u>
Net income before Federal income taxes	\$ 1,971,092	\$ 2,795,868
Provision for Federal income taxes—Note C	1,055,000	1,445,000
Net income	916,092	1,350,868
Earned Surplus as at January 31, 1958-1957	14,503,755	14,411,716
	<u>15,419,847</u>	<u>15,762,584</u>
Dividends paid on Common Stock:		
1959—\$1.00 per share	868,158	
1958—\$1.45 per share		1,258,829
Earned Surplus as at January 30, 1959 (prior to merger) and January 31, 1958	<u>\$14,551,689</u>	<u>\$14,503,755</u>

Red figures are designated by ().

The Notes to Financial Statements are an integral part of this statement and should be read in conjunction herewith.

TO THE BOARD OF DIRECTORS
McCRORY-McLELLAN STORES CORPORATION,
NEW YORK, N. Y.

We have examined the balance sheet of McLellan Stores Company as at January 30, 1959 (prior to merger), and the related statement of income and earned surplus for the period from February 1, 1958 to January 30, 1959 (prior to merger). Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of income and earned surplus, together with the notes to financial statements, present fairly the financial position of McLellan Stores Company at January 30, 1959 (prior to merger), and the results of its operations for the period from February 1, 1958 to January 30, 1959 (prior to merger), in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & Co.
Certified Public Accountants

New York, N. Y.
February 27, 1959

Ten Year Summary

(In thousands of dollars)

	1958	1957	1956
SALES	\$60,452	\$60,694	\$61,860
Cost of Goods Sold and Selling and Administrative Expenses	57,151	56,624	57,636
Depreciation and Amortization	1,215	1,175	1,072
Other Deductions, less other income	115	99	99
NET INCOME BEFORE FEDERAL TAXES	1,971	2,796	3,053
Federal Taxes on Income	1,055	1,445	1,560
NET INCOME	\$ 916	\$ 1,351	\$ 1,493
Cash Dividends on Common Stock	868	1,259	1,389
Net Income per share of Common Stock	1.06	1.56	1.72
Cash Dividends per share of Common Stock	1.00	1.45	1.60
Number of Stores	235	235	232

Financial Position —

(In thousands of dollars)

	1958	1957	1956
WORKING CAPITAL			
Current Assets			
Cash and U. S. Government Securities	\$ 1,847	\$ 2,105	\$ 1,563
Merchandise Inventories	11,894	12,279	12,440
Miscellaneous Accounts Receivable	125	271	451
Total Current Assets	13,866	14,655	14,454
Current Liabilities	6,024	6,455	6,056
WORKING CAPITAL	7,842	8,200	8,398
OTHER ASSETS			
Miscellaneous	—	—	—
Deferred Charges	642	475	550
Fixed Assets, Less Reserves for Depreciation and Amortization	11,819	12,017	12,087
	20,303	20,692	21,035
OTHER LIABILITIES	878	1,315	1,750
RESERVES	—	—	—
NET ASSETS — Represented by Common Stock and Surplus	\$19,425	\$19,377	\$19,285
NET WORTH PER SHARE OF COMMON STOCK	\$ 22.37	\$ 22.32	\$ 22.21

TEN YEAR SUMMARY

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Statement of Income

1955	1954	1953	1952	1951	1950	1949
\$61,408	\$60,655	\$60,673	\$62,476	\$61,082	\$56,640	\$54,486
56,910	56,251	55,816	57,266	56,066	51,075	49,951
974	919	875	833	768	700	576
53	(8)	17	(3)	(16)	(21)	(11)
3,471	3,493	3,965	4,380	4,264	4,886	3,970
1,715	1,680	2,000	2,250	2,090	2,090	1,435
\$ 1,756	\$ 1,813	\$ 1,965	\$ 2,130	\$ 2,174	\$ 2,796	\$ 2,535
1,447	1,702	1,702	1,702	1,702	1,489	1,702
2.02	2.13	2.31	2.50	2.55	3.28	2.98
1.70	2.00	2.00	2.00	2.00	1.75	2.00
232	234	232	231	231	231	230

1955	1954	1953	1952	1951	1950	1949
\$ 1,541	\$ 2,355	\$ 2,641	\$ 2,439	\$ 2,783	\$ 3,287	\$ 4,353
13,836	11,110	11,172	12,330	11,920	11,331	9,244
567	99	105	139	235	384	270
15,944	13,564	13,918	14,908	14,938	15,002	13,867
7,181	5,132	5,310	6,465	6,406	6,079	4,974
8,763	8,432	8,608	8,443	8,532	8,923	8,893
—	—	—	200	200	200	200
473	448	611	560	498	426	348
10,945	9,992	9,543	9,297	8,841	8,050	6,851
20,181	18,872	18,762	18,500	18,071	17,599	16,292
1,000	—	—	—	—	—	—
—	—	—	200	200	200	200
\$19,181	\$18,872	\$18,762	\$18,300	\$17,871	\$17,399	\$16,092
\$ 22.09	\$ 22.17	\$ 22.04	\$ 21.50	\$ 21.00	\$ 20.44	\$ 18.91

451 McCrory-McLellan Stores...

Alabama (7)

☆Bessemer
☆Florence
☆Gadsden
☆Huntsville
1-2 E. Side Sq.
3 Parkway Shopping Cen.
☆Sheffield
☆Tuscaloosa

Arizona (5)

☆Flagstaff
☆Tucson
801 E. Fort Lowell Rd.
63 E. Congress St.
3302 E. Speedway
3376 S. 6th Ave.

Arkansas (4)

Eldorado
Fort Smith
Jonesboro
☆Little Rock

Connecticut (6)

☆Bristol
Danbury
☆Manchester
☆South Norwalk
☆West Hartford
☆Westport

Delaware (1)

Dover

Dist. of Col. (1)

Washington

Florida (41)

Arcadia
Bartow
Bradenton
Clearwater
Daytona Beach
128 S. Beach St.
814 Main St.
Deland
Fort Lauderdale
Fort Myers
Fort Pierce
Gainesville
Hialeah
Homestead
Key West
Kissimmee
Lake City
Lakeland
Leesburg
Live Oak

Fla. (cont.)

Melbourne
Miami
Miami Beach
New Smyrna
Ocala
Orlando
S. Orange Ave.
E. Colonial Drive
Palatka
Panama City
Plant City
Punta Gorda
Quincy
Sanford
Sarasota
St. Augustine
St. Petersburg
425 Central Ave.
3270 Central Ave.
904 58th St., No.
Tallahassee
Wauchula
West Palm Beach
Winter Haven

Georgia (25)

☆Americus
☆Athens
Atlanta
☆Augusta
Bainbridge
Columbus
Cordele
☆Cordele
☆Dalton
☆Dublin
East Point
☆Fitzgerald
☆Gainesville
☆Griffin
☆LaGrange
☆Marietta
☆Moultrie
☆Rome
Savannah
☆Statesboro
☆Thomasville
☆Thomson
Tifton
Valdosta
Waycross

Illinois (8)

☆Bloomington
☆Galesburg
☆Kankakee
☆Kewanee

Illinois (Cont.)

☆LaSalle
☆Melrose Park
☆Ottawa
☆Pekin

Indiana (9)

Anderson
☆Elkhart
☆Huntington
Indianapolis
☆Kokomo
☆Lafayette
☆LaPorte
☆Mishawaka
☆Richmond

Iowa (11)

☆Albia
☆Ames
☆Cedar Rapids
☆Centerville
☆Clinton
☆Creston
☆Fort Dodge
☆Mason City
☆Shenandoah
☆Washington
☆Waterloo

Kansas (10)

☆Arkansas City
☆Dodge City
☆Eldorado
☆Emporia
☆Eureka
☆Hiawatha
☆Kansas City
☆Topeka
☆Wichita
☆Winfield

Kentucky (2)

Lexington
Louisville

Louisiana (4)

Baton Rouge
Lafayette
New Orleans
1626 Dryades St.
1005 Canal St.

Maine (6)

☆Augusta
☆Belfast

Maine (Cont.)

☆Sanford
☆Skowhegan
☆Waterville
☆Westbrook

Maryland (9)

Baltimore
227 W. Lexington St.
6311 York Rd.
Cambridge
Crisfield
Cumberland
Easton
Frederick
Hagerstown
Salisbury

Massachusetts (21)

☆Amherst
☆Boston
☆Canton
☆Charlestown
☆Dedham
☆Fall River
☆Gt. Barrington
☆Greenfield
☆Hyannis
☆Hyde Park
☆Lynn
☆Milford
New Bedford
1115 Acushnet Ave.
1009 S. Water St.
☆Norfolk Downs
☆Norwood
☆Plymouth
☆Southbridge
☆Wareham
☆Whitinsville
☆Winchendon

Michigan (17)

☆Adrian
☆Alpena
☆Battle Creek
☆Benton Harbor
☆Grand Haven
☆Greenville
☆Holland
☆Ionia
☆Ironwood
☆Jackson
☆Lapeer
☆Niles
☆Petoskey
☆Sturgis

Michigan (Cont.)

☆Traverse City
☆Ypsilanti

Minnesota (2)

☆St. Paul
☆Virginia

Mississippi (10)

☆Columbia
☆Columbus
☆Greenville
☆Greenwood
☆Gulfport
☆Jackson
☆Laurel
☆McComb
☆Natchez
☆Pascagoula

Missouri (2)

☆Kirksville
St. Louis

New Hampshire (1)

☆Milford

New Jersey (11)

Atlantic City
Burlington
Camden
Clifton
Jersey City
Newark
Orange
Passaic
Perth Amboy
Rahway
Union

New Mexico (4)

☆Albuquerque
320 Central Ave., S.W.
4710 Central Ave., S.E.
2232 Wyoming, N.E.
☆Farmington

New York (16)

☆Amityville
☆Astoria
Bay Shore, L. I.
Brooklyn
☆Farmingdale

...in Thirty-Six States *

New York (Cont.)

Flushing, L. I.
 ☆Glen Cove
 ☆Gloversville
 Johnson City
 ☆Long Beach
 Long Island City
 New York City
 ☆Patchogue
 Rego Park
 ☆Riverhead
 Syracuse

North Carolina (27)

☆Albermarle
 ☆Burlington
 ☆Charlotte
 ☆Concord
 Dunn
 ☆Elizabeth City
 Fayetteville
 Fort Bragg
 ☆Goldsboro
 ☆Greenville
 ☆Hendersonville
 ☆Hickory
 ☆High Point
 ☆Kinston
 ☆Lexington
 ☆Lumberton
 ☆Mt. Airy
 ☆New Bern
 ☆Raleigh
 Roanoke Rapids
 ☆Rocky Mount
 ☆Salisbury
 Tarboro
 ☆Thomasville
 ☆Washington
 ☆Wilmington
 ☆Wilson

Ohio (9)

Canton
 Dayton
 ☆Delaware
 East Liverpool
 Hamilton
 Kent
 Springfield
 Steubenville
 Youngstown

Oklahoma (18)

☆Ada
 ☆Altus
 ☆Chickasha
 ☆Claremore
 ☆Clinton
 ☆Drumright
 ☆Duncan
 ☆El Reno
 ☆Elk City
 ☆Enid
 ☆Holdenville
 ☆Lawton
 ☆Nowata
 ☆Perry
 ☆Pryor Creek
 ☆Stillwater
 ☆Sulphur
 ☆Vinita

Pennsylvania (58)

Allentown
 Altoona
 Barnesboro
 Bethlehem
 Bradford
 Bristol
 Brookville
 Cannonsburg
 Carlisle
 Carnegie
 Chambersburg
 Charleroi
 Chester
 Clearfield
 Connellsville
 Cresson
 Donora
 DuBois
 Ebensburg
 Edwardsville
 Emporium
 Fairless Hills
 Franklin
 Greensburg
 Hanover
 Hazleton
 Homestead
 Huntingdon
 Indiana
 Johnstown
 Kane
 ☆Kane

Pa. (cont.)

Lancaster
 Lebanon
 Lewistown
 Monongahela
 Mt. Pleasant
 Patton
 Philadelphia
 1205 Market St.
 919 Market St.
 Philipsburg
 Pittsburgh
 105 E. Ohio Ave.
 314 Fifth Ave.
 Portage
 Pottstown
 Punxsutawney
 Reading
 Reynoldsville
 Ridgway
 Scottdale
 Somerset
 Tyrone
 Vandergrift
 Waynesboro
 Waynesburg
 Windber
 York
 10 W. Market St.
 2449 E. Market St.

Rhode Island (4)

☆Bristol
 ☆Providence
 1519 Broad St.
 195 Wayland Ave.
 ☆Westerly

South Carolina (18)

☆Abbeville
 Aiken
 ☆Anderson
 Chester
 Columbia
 ☆Darlington
 ☆Florence
 Gaffney
 Georgetown
 Greenwood
 ☆Greenwood
 ☆Greer
 Newberry
 ☆Orangeburg
 Rock Hill
 ☆Spartanburg

So. Carolina (Cont.)

☆Sumter
 ☆Union

Tennessee (15)

Bristol
 ☆Chattanooga
 ☆Clarksville
 ☆Columbia
 ☆Jackson
 ☆Johnson City
 Kingsport
 ☆Knoxville
 ☆Memphis
 Memphis
 Morristown
 ☆Murfreesboro
 ☆Nashville
 Oak Ridge
 Whitehaven

Texas (31)

☆Abilene
 Big Spring
 ☆Borger
 ☆Corsicana
 Dallas
 Denton
 Fort Worth
 6305 Camp Bowie Blvd.
 901-3-5 Houston St.
 Galveston
 ☆Greenville
 ☆Harlingen
 ☆Laredo
 ☆Marshall
 McAllen
 ☆McAllen
 Nacogdoches
 Palestine
 ☆Pampa
 ☆Paris
 ☆Pasadena
 ☆Perryton
 ☆Port Arthur
 ☆San Angelo
 San Antonio
 ☆Sherman
 Taylor
 ☆Temple
 Terrell
 ☆Tyler
 Waco
 Wichita Falls

Vermont (2)

☆Montpelier
 ☆St. Johnsbury

Virginia (11)

Arlington
 Cape Charles
 Charlottesville
 Front Royal
 Harrisonburg
 ☆Petersburg
 Pulaski
 ☆Roanoke
 Staunton
 ☆Suffolk
 Winchester

West Virginia (11)

Charleston
 Clarksburg
 Fairmont
 Grafton
 Huntington
 Mannington
 Martinsburg
 Morgantown
 New Martinsville
 Parkersburg
 Wheeling

Wisconsin (14)

☆Antigo
 ☆Beloit
 ☆La Crosse
 ☆Marinette
 ☆Marshfield
 ☆Merrill
 ☆Monroe
 ☆Oconomowoc
 ☆Platteville
 ☆Stevens Point
 ☆Sturgeon Bay
 ☆Waupun
 ☆Wausau
 ☆West Allis

*And the District of Columbia.
 Stockroom at Huntingdon, Pa.
 ☆ Former McLellan Stores

McCrory-McLellan

STORES CORPORATION

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